

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC PRIORITY 8176
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMEMBASSY TOKYO

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BRUSSELS FOR USEEC

PARIS FOR USOECD

DEPT PASS TREASURY FOR HUFBAUER, EXIM FOR DUFF AND KUGE

E.O. 11652: N/A
TAGS: EFIN, CA
SUBJECT: MEETING ON EXPORT CREDITS.

1. SUMMARY. TREASURY DEPUTY ASSISTANT SECRETARY HUFBAUER
MET WITH CANADIAN DELEGATION JULY 21 TO DISCUSS STRATEGY
AND ISSUES IN IMPROVING CONSENSUS ON EXPORT CREDITS.
HUFBAUER OUTLINED CHOICE OF STRATEGIES: ATTEMPTING TO REACH
OVERALL IMPROVEMENT IN CONSENSUS BY INCREASING INTEREST
RATES ONE HALF OF ONE PERCENT AND POSSIBLY REACHING AGREE-
MENT ON MIXED CREDITS. THIS COULD BE DONE IF ENOUGH
SUPPORT EXISTED AT THE POLICY LEVEL BY MINISTERS AT
SEPTEMBER MEETING OF IMF. IF SUFFICIENT SUPPORT FOR SUCH A MAJOR
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STEP DID NOT EXIST, MORE MODEST PROGRESS ON SECTORS COULD
BE PERSUED AT OECD. WITHOUT SPECIFICALLY SUPPORTING HIGH
LEVEL APPROACH, CANADIANS EXPRESSED INTEREST IN TAKING
PART SHOULD SUCH TALKS TAKE PLACE.

2. IN DISCUSSIONS ON SECTORS, GOC EXPRESSED SOME CONCERN
FOR PROTECTION OF ITS SPECIAL INTERESTS ON AIRCRAFT,

NUCLEAR POWER PLANTS, AND SHIPS, BUT AGREED TO CONSIDER QUESTIONS FURTHER. CANADIANS SAID SOME COMPROMISE ON AIRCRAFT WAS POSSIBLE BY LOOKING AT PRICE RATHER THAN FUNCTIONAL CATEGORIES OF AIRCRAFT. ON AGRICULTURE, GOC OFFICIALS EXPRESSED SOME CONCERN ABOUT EC REACTION TO EXTENDING AGREEMENT ON CREDITS BEYOND THREE YEARS. THEY ALSO EXPRESSED CONCERN ABOUT AFFECT OF PL 480 SALES ON COMMERCIAL SALES (EG., TO HAITI), BUT INDICATED THEY THOUGHT SOME ARRANGEMENT COULD BE WORKED OUT. THEY WERE NOT OPPOSED TO INCLUDING SOME ADCS IN TALKS. END SUMMARY.

3. HUFBAUER WAS ACCOMPANIED BY EXIM DEPUTY GENERAL COUNSEL DUFF AND DEPUTY VP KUGE. GOC DEL WAS LED BY ROBERT JOYCE, FINANCE DEPT. ADM FOR INT. TRADE AND FINANCE AND DAVID HILTON DIRECTOR, INT. PROGRAMS DIVISION, FINANCE DEPT.

4. STRATEGY. HUFBAUER SAID WE HAD BASICALLY TWO CHOICES AS WAYS TO PROCEED. FIRST, TO EXPAND THE CONSENSUS AND INCLUDE MIXED CREDITS IN EXCHANGE FOR CONCESSIONS ON SECTORS. THIS WOULD BE A POLITICAL ACT THAT COULD ONLY BE TAKEN AT THE MINISTERIAL LEVEL. THIS COULD BE DONE IF THERE WERE ENOUGH SUPPORT FOR THE IDEA AT THE IMF MEETINGS IN SEPTEMBER. SECOND, IF THIS DID NOT APPEAR POSSIBLE, IT WOULD NOT APPEAR TO MAKE SENSE TO GO AFTER MAJOR CHANGES BUT TO MAKE MORE MODEST PROGRESS IN MEETINGS IN OECD. JOYCE RESPONDED THAT IF THERE WAS A MEETING TO IMPROVE THE LIMITED OFFICIAL USE

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CONSENSUS, GOC WOULD WANT TO JOIN IN THE EFFORT TO COME TO A NEW UNDERSTANDING. HUFBAUER SAID WE WOULD CONSULT WITH EUROPEAN OFFICIALS AT THE STAFF LEVEL AND DECIDE BY EARLY AUGUST WHETHER IT WAS POSSIBLE TO TRY FOR A BIGGER AGREEMENT. A MORE MODEST AGREEMENT WOULD ADDRESS ITSELF TO ADJUSTMENT OF SECTORS SUCH AS AIRCRAFT, SHIPS, AGRICULTURE AND PROCEDURAL ISSUES.

5. JOYCE SAID THAT SECTORAL EXCLUSIONS AS THEY EXIST ARE HELPFUL TO CANADA IN KEEPING TO THE CONSENSUS. CANADA

NEEDED FLEXIBILITY ON A NUMBER OF THESE ITEMS. GOC STILL FAVORED THE MATRIX OF INCREASING INTEREST RATES AND TERMS. INTEREST RATES ARE NOW SO LOW THAT THEY CERTAINLY COULD BE INCREASED A NOTCH. BUT IF PROGRESS WAS NOT POSSIBLE IN THESE AREAS, THEN CANADA WOULD NEED THE SECTORAL EXCLUSIONS. JOYCE SAID IT WAS IMPORTANT TO GIVE AT LEAST THE SEMBLANCE OF SOME MOVEMENT. HUFBAUER THOUGHT THIS COULD BE DONE IN THE OECD. JOYCE SAID THAT GOC WAS RETHINKING THE SUBJECT BEING LOOKED INTO BY THE NEW PRESIDENT OF THE CANADIAN INTERNATIONAL DEVELOPMENT ASSOCIATION (C.I.D.A.).

6. AGRICULTURE. HUFBAUER SAID WE HAVE BEEN CONSIDERING BRINGING AGRICULTURE CREDITS OF MORE THAN THREE YEARS INTO THE ARRANGMENT. U.S. LEGISLATION HAS BEEN PROPOSED IN WHICH CC CREDITS ON RESERVE STOCKS MIGHT GO TO SEVEN

YEARS OR BEYOND. IF THIS COMES ABOUT, WE WOULD LIKE THE DISCIPLINE OF AN AGREEMENT ON INTEREST RATES. THE U.S. VIEWS SUCH AN EXTENSION AS AN OFFER TO OTHER COUNTRIES -- NOT A REQUEST -- AS WE ARE NOW FREE TO DO ANYTHING BEYOND THREE YEARS. IN RESPONSE TO A QUESTION, HUFBAUER SAID THAT THE FAO ARRANGMENT REALLY REPRESENTED NO RESTRAINT. HILTON SAID THAT CREDITS OF THREE TO TEN YEARS MIGHT HAVE TO TAKE INTO ACCOUNT THE QUESTION OF SURPLUS DISPOSAL AND THAT THERE MAY BE A POLITICAL PRICE ATTACHED TO BRINGING LIMITED OFFICIAL USE

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AGRICULTURE INTO THE CONSENSUS, ESPECIALLY FROM THE EC.

7. HUFBAUER SAID HIS PERCEPTION WAS THE OPPOSITE. CONGRESS AND THE AGRICULTURAL COMMUNITY FEEL THEY ARE NOT NOW SUBJECT TO ANY CONSTRAINT ON TERMS BEYOND THREE YEARS. IF THE BILL BEFORE CONGRESS IS PASSED GIVING AUTHORITY FOR EXTENDED CREDIT TERMS, IT IS UNLIKELY THOSE TERMS WILL NOT BE USED. WE WOULD THEN ALL END UP LOSING MONEY.

8. HILTON SAID HE THOUGHT IT WAS IMPORTANT TO DIVORCE THE QUESTION OF AGRICULTURAL CREDITS FROM AID POLICIES. FOR EXAMPLE, HE SAID A U.S. PL480 PROJECT HAD GIVEN CANADA SOME PROBLEMS RECENTLY (THIS WAS A REFERENCE TO U.S. PROPOSAL OF TITLE III FOR HAITI). HILTON SAID HE UNDERSTOOD HUFBAUER'S POINT, AND HE THOUGHT SOME SOLUTION COULD BE WORKED OUT. HUFBAUER SAID WE WOULD DRAFT SOME LANGUAGE TO BRING TOGETHER U.S., CANADIAN AND AUSTRALIAN VIEWS. HE DID NOT BELIEVE THAT THE EC WOULD BE MUCH OF A PROBLEM.

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BRUSSELS FOR USEEC

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9. AIRCRAFT. HUFBAUER SAID THAT A KEY AREA CONCERNING AIRCRAFT WAS MAXIMUM REPAYMENT TERMS. WHILE 10 YEAR TERMS WERE DESIRABLE, THERE HAD BEEN LEASES FOR 12 YEARS AND IT WAS ALLEGED THAT 15 YEARS HAD BEEN OFFERED ON THE EUROPEAN AIR BUS. THE DISTINCTION BETWEEN A SALE AND A LEASE CAN BE ARTIFICIAL. WE THINK THEY SHOULD BE TREATED THE SAME.

10. HILTON SAID CANADA ENJOYED A RELATIVELY HEALTHY AIRCRAFT INDUSTRY. TWO MANUFACTURERS ARE BRINGING NEW AIRCRAFT INTO THE MARKET SOON. THE DISTINCTION IN THE CONSENSUS BETWEEN TURBO JETS IN CATEGORY AND TURBO PROPS IN CATEGORY B WAS SOMETIMES ARTIFICIAL AS TURBO PROPS SOMETIMES COMPETE WITH SMALLER EXECUTIVE JETS. IN PARTICULAR, LIMITED OFFICIAL USE

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THERE WAS A CANADIAN EXECUTIVE JET COMING ON THE MARKET FOR WHICH 138 ORDERS ALREADY EXIST AND A PRODUCTION RUN OF 400 TO 600 IS ANTICIPATED. GOC DID NOT WISH EXPORT SALES ON THAT AIRCRAFT TO BE CONSTRAINED. HILTON SAID THE VALUE OF THE AIRCRAFT MIGHT BE USED A CRITERIA RAHTER THAN ITS DESIGN CATEGORY. HE SAID GOC WOULD CONSIDER THIS QUESTION FURTHER.

11. NUCLEAR POWER PLANTS. HILTON SAID NUCLEAR POWER PLANTS WERE AN AREA OF PRIME INTEREST TO CANADA. GOC BELIEVES PRODUCT IS GOOD, OFFERS ARE DEFESNEABLE, AND GOC DOES NOT ANT TO BE HINDERED IN PROMOTING THEIR SALE. HUFBAUER SAID HE BELIEVED THERE IS A BASIS FOR AN AGREE-

MENT AS THERE IS FOR AIRCRAFT. ONE ELEMENT IS THE INTEREST RATE WHICH IS NO SOFTER THAN IN MAY, 1975, WHEN THE STANDSTILL WAS SIGNED. IT CAN PERHAPS BE RESOLVED BY AN OPEN MATRIX. HILTON DID NOT DISAGREE.

12. SHIPS. BOTH SIDES AGREED EVERYBODY IS CHEATING ON ARRANGEMENTS FOR SHIPS, AMOUNTING TO AN "OBSERVANCE OF THE BREAHCES". HILTON SAID GOC WAS UNEASY ABOUT FINANCING FOR SHIPS, ESPECIALLY AS IT IS FOR CANADA A REGIONAL ECONOMIC QUESTION WITH SHIPYARDS LOCATED IN THE WEAKER ECONOMIC AREAS OF THE COUNTRY. CANADIAN SHIPBUILDING ONCE DID WELL ON OCEAN DRILLING RIGS BUT THAT BUSINESS HAS DIMINSIHED. SHIPBUILDING IS CONTINUING AT A REDUCED LEVEL AND IT IS POLTICALLY DESIRABLE TO KEEP EXISTING YARDS ACTIVE. GOC WOULD NOT WANT TO SHUT ANY OF THEM DOWN BECAUSE THEY COULD NOT MEET THE COMPETITION. HILTON SAID GOC PLANNED TO TAKE NO INITIATIVE ON SHIPS, BUT WOULD SEE HOW THE EUROPEANS WISHED TO PLAY IT IN OCTBER.

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13. ADC'S. HILTON SAID IN PRINCIPLE CANADA WAS RELAXED ABOUT INCLUDING BRAZIL, KOREA, AND OTHER ADVANCED DEVELOPING COUNTRIES (ADC'S) IN DISCUSSIONS ON HOW THE CONSENSUS HAS WORKED. THERE ARE SOME ADVANTAGES IN INCLUDING THEM IN, BUT GOC WOULD WISH TO AVOID POLITICAL PROBLEMS WHICH MIGHT BE ATTACHED TO QUESTION OF RELATIONSHIP TO OECD. ANY LIST OF ADC'S INVITED SHOULD BE KEP SHORT.

14. DEVELOPMENT BANKS. IT WAS NOTED THAT SOME REGIONAL DEVELOPMENT BANKS WISHED TO MOVE IN THE AREA OF EXPORT CREDITS. HUFBAUER SIAD WE BELIEVE THIS IS TOTALLY INAPPROPRIATE.

15. IN RESPONSE TO A QUESTION, HUFBAUER SAID A MINIMUM PACKAGE TO BE APPROVED AT THE MINISTERIAL LEVEL WOULD BE TO INCREASE INTEREST RATES ONE HALF OF ONE PERCENT ACROSS THE BOARD. THE PRICE TO BE PAID FOR THIS WOULD BE IN THE AREA IF TRADE-OFFS IN SPECIFIC SECTORS. A LARGER PACKAGE WOULD INCLUDE RESTRAINT ON MIXED CREDITS IN ADDITION TO THE INTEREST RATES.

16. FOREGOING SUMMARY OF TALKS WAS PREPARED AFTER DEPARTURE OF HUFBAUER FROM OTTAWA. ENDERS

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